



# Raising Money Alternatively

# Learning Objectives



1

Review the role of financial intermediaries in the funding process



2

Understand what is crowdfunding and examine different types of crowdfunding



3

Get insights of current growth of crowdfunding and discuss the benefits and issues with crowdfunding



4

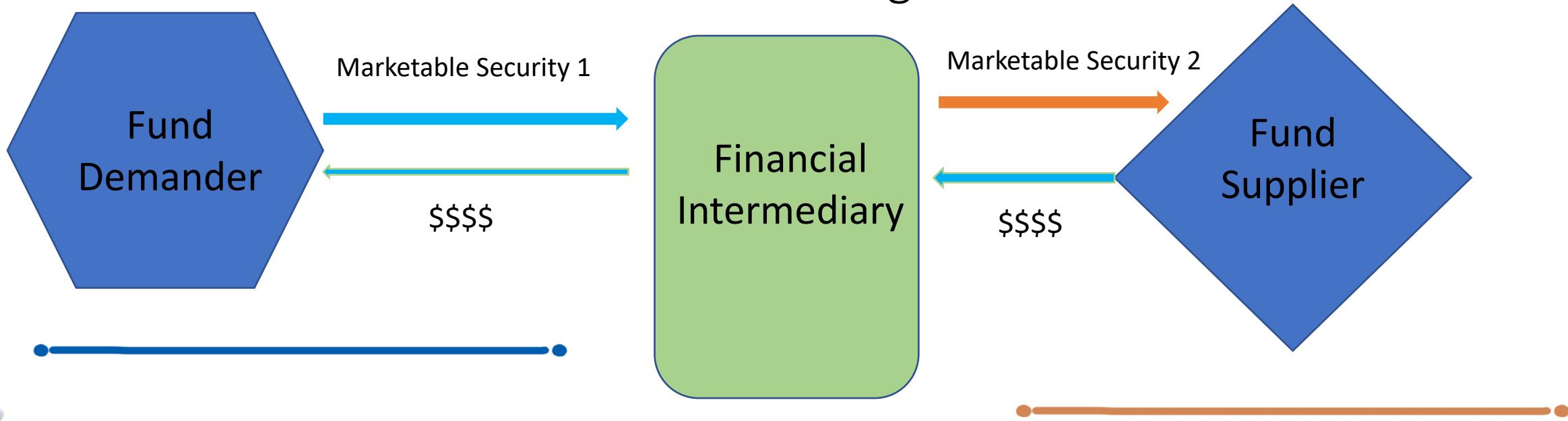
Evaluate how crowdfunding is disrupting the traditional financial intermediaries as an alternative method to financing.

## Direct Financing



Surplus and deficit units exchange funds and securities directly. **One** financial asset is created.

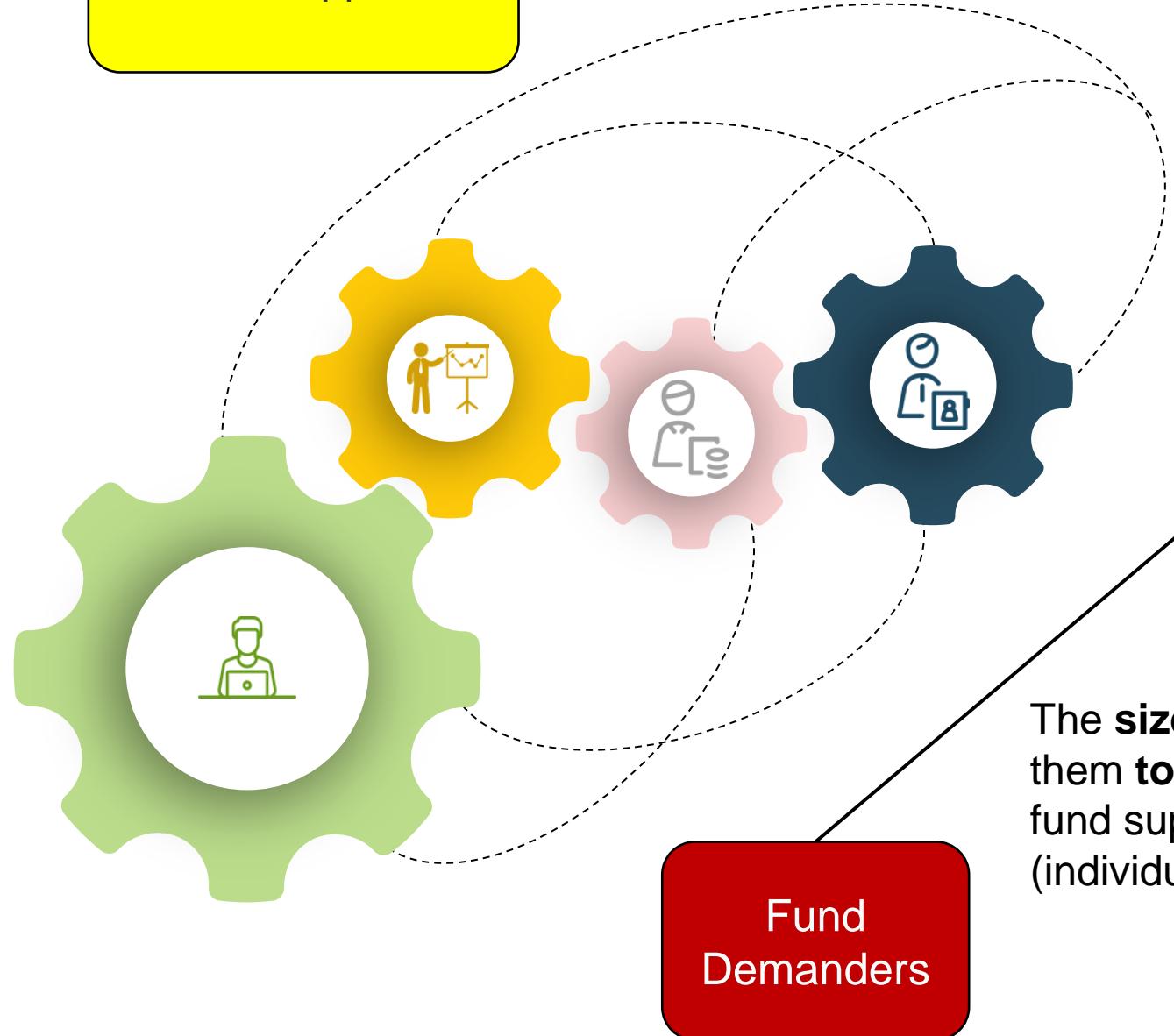
## Indirect financing



An intermediary creates and distributes new financial claims upon itself. **Two** financial assets are created in this process.

Fund Suppliers

# Why Intermediaries?



The **size** and **expertise** of financial intermediaries allows them to **cost effectively match** the conflicting needs of fund suppliers (investors) and fund demanders (individuals and organizations)

# Why NOT Intermediaries?

## Changing Mindset ,Technologies and Regulations



- The 2007/2009 financial crisis severely shook the brand image of traditional financial intermediaries, especially banks;
- Customers in many financial services areas have shifted their mindset regarding who has the resources and legitimacy to provide financial services



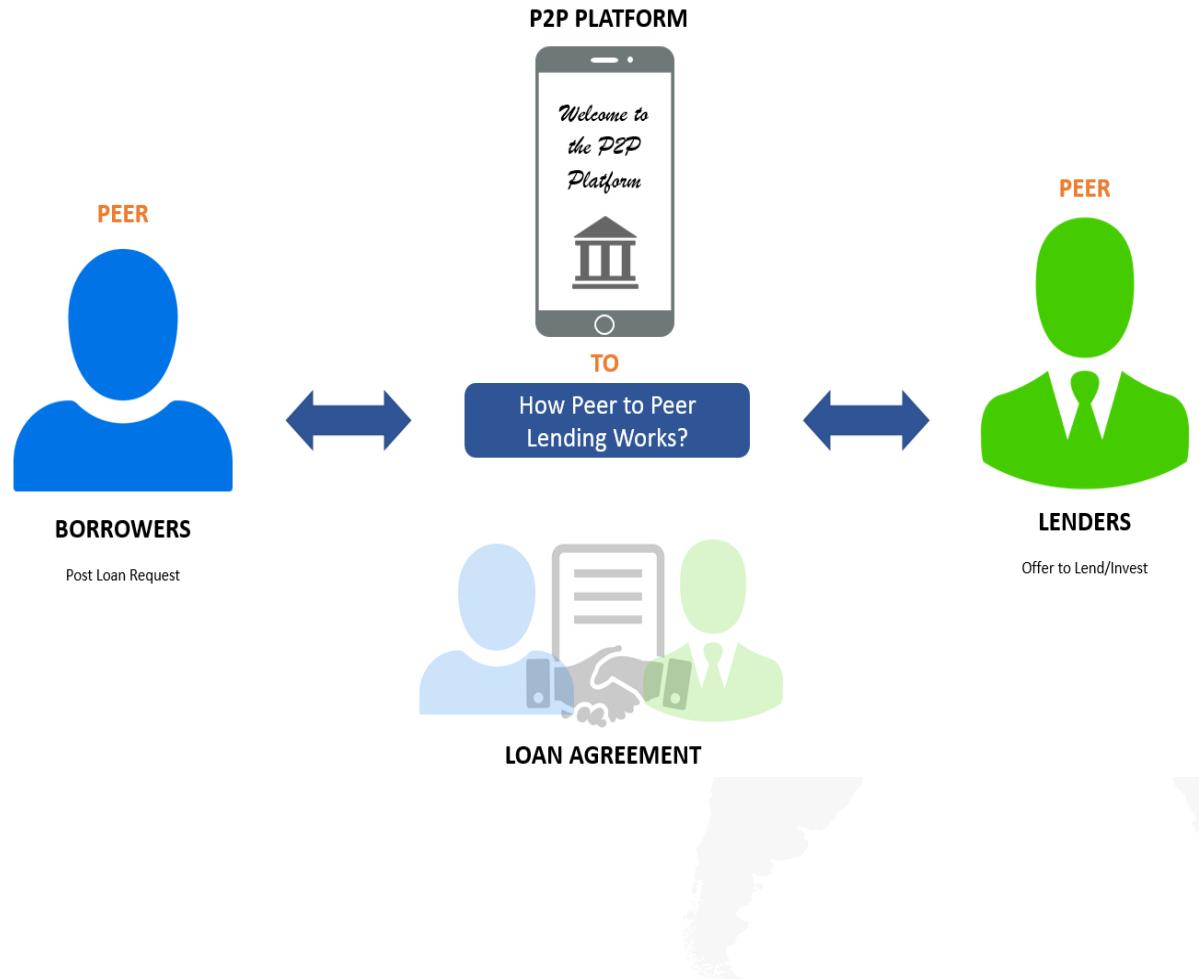
- An open call to provide financial resources, which mostly takes place on **Internet-based platforms** without standard financial intermediaries
- An existing FinTech innovation that **may remove** finance intermediaries
- Two Classes
  - Investment-based
    - Peer to Peer Lending
    - Royalty
    - Equity
  - Reward- and donation-based

# Peer to Peer Lending (P2P) /Marketplace Lending



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## Why NOT Banks?



### Lower cost of borrowing

Online P2P platforms **have lower overhead costs**, and can therefore provide cheaper lending than traditional financial institutions.

### Easier access of fund

Borrowers are seeking for alternative ways of fund due to stricter regulations after GFC

### Higher return on lending

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## P2P Examples

 **LendingClub**

Launched on Facebook as one of Facebook's first apps in 2006

**Unsecured Personal Loans**  
\$1000 to \$40000 USD  
Up to 3 years

The first P2P lender to register its offerings as securities with the Securities and Exchange Commission, US.



The world **first** P2P platform, 2005 in UK



Have risen dramatically since 2007, especially in Southeast Asia and China

## Peer to Peer Lending (P2P) /Marketplace Lending

Mitigate Credit Risk:  
diversifying investments  
among different borrowers

Mitigate credit risk:  
choose borrowers

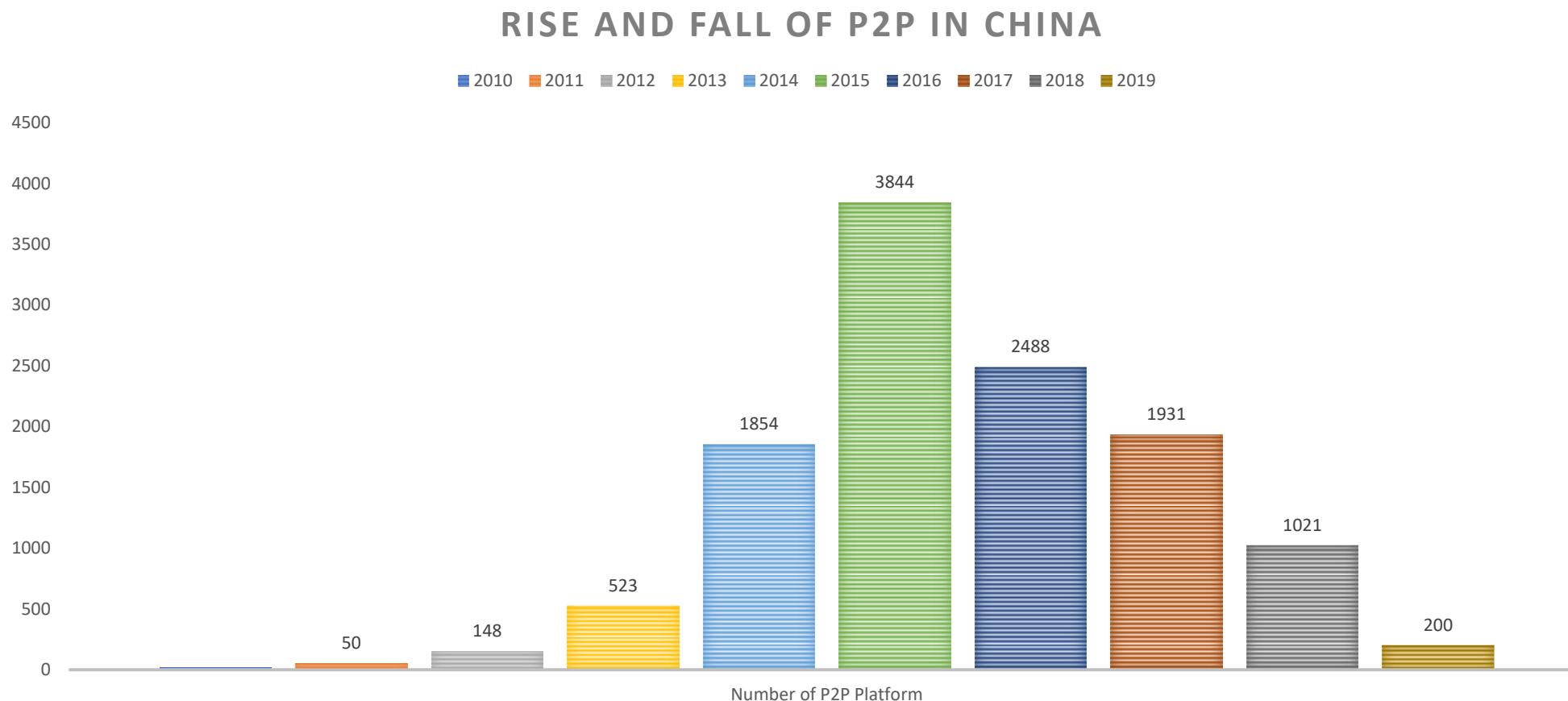
Investment in the loan  
is not normally protected  
by any guarantee



Extra Risk: P2P Platform  
bankruptcy



## Case: P2P Rise and Fall in China

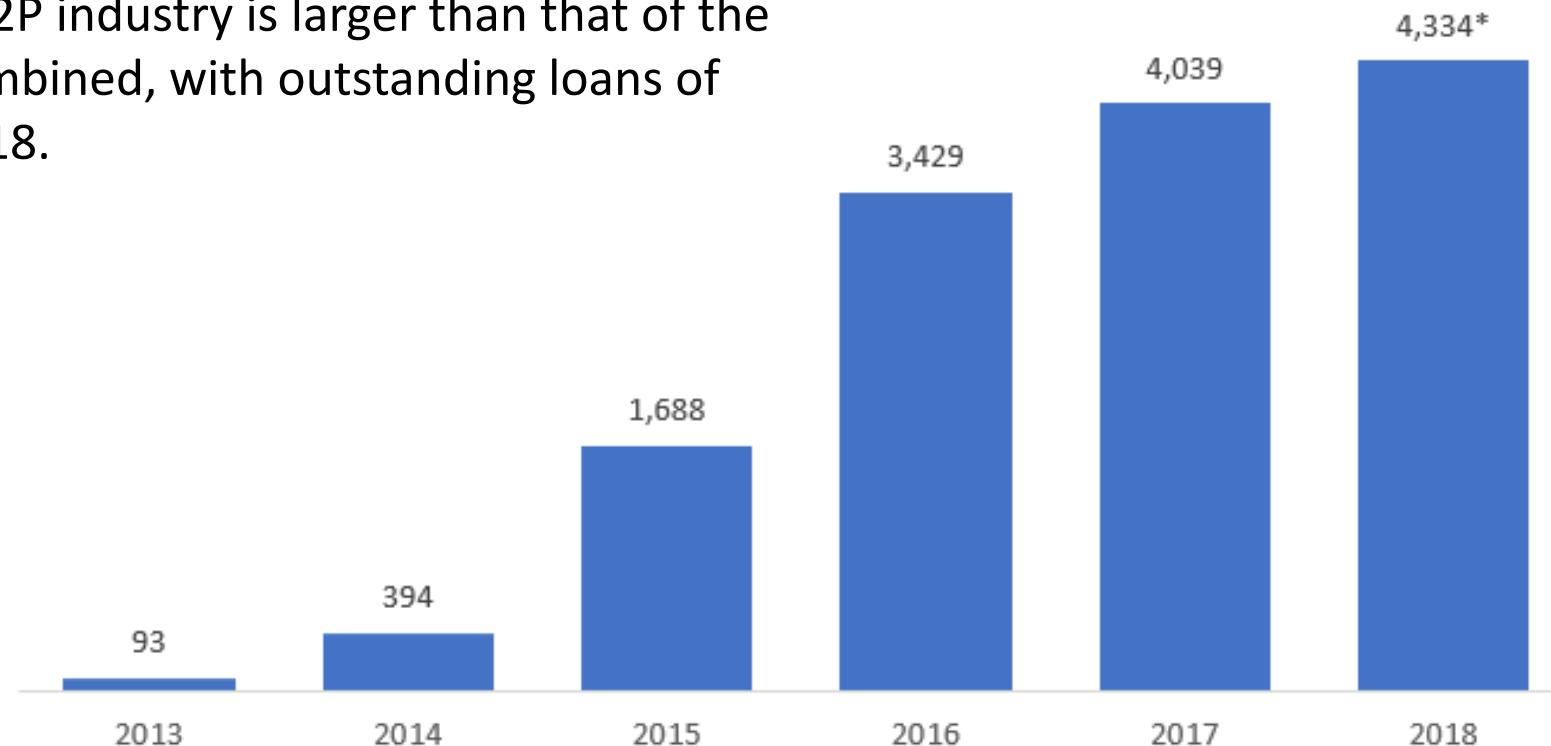


Source: Table is designed based the data retrieved from(1) <https://www.statista.com/statistics/652720/china-online-p2p-lending-platform-count/> and (2) <https://www.finextra.com/blogposting/17107/the-rise-and-fall-of-p2p-lending-in-china>

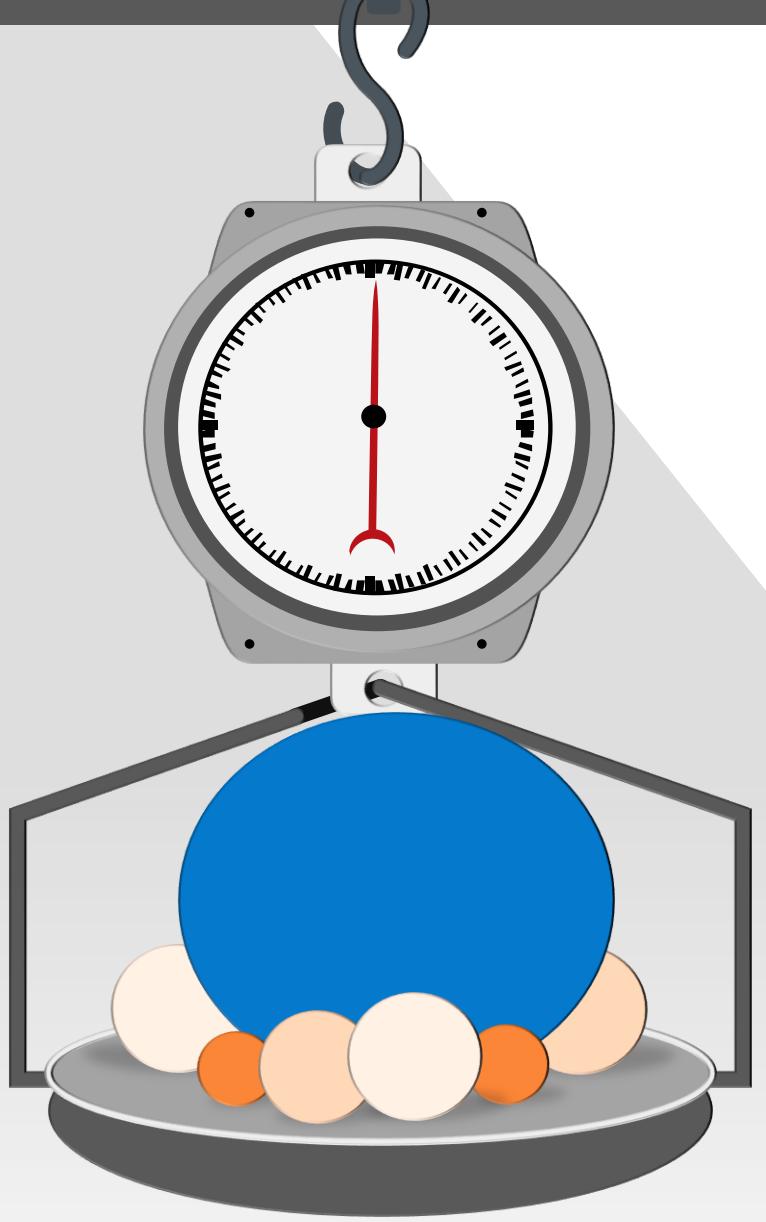
## Case: P2P Rise and Fall in China

Failed Peer-to-Peer Lending Platforms in China (cumulative)

The size of China's P2P industry is larger than that of the rest of the world combined, with outstanding loans of US\$217.96BN by 2018.



Source: <https://www.bloomberg.com/news/articles/2019-01-02/china-s-online-lending-crackdown-may-see-70-of-businesses-close>



# P2P Rise and Fall in China

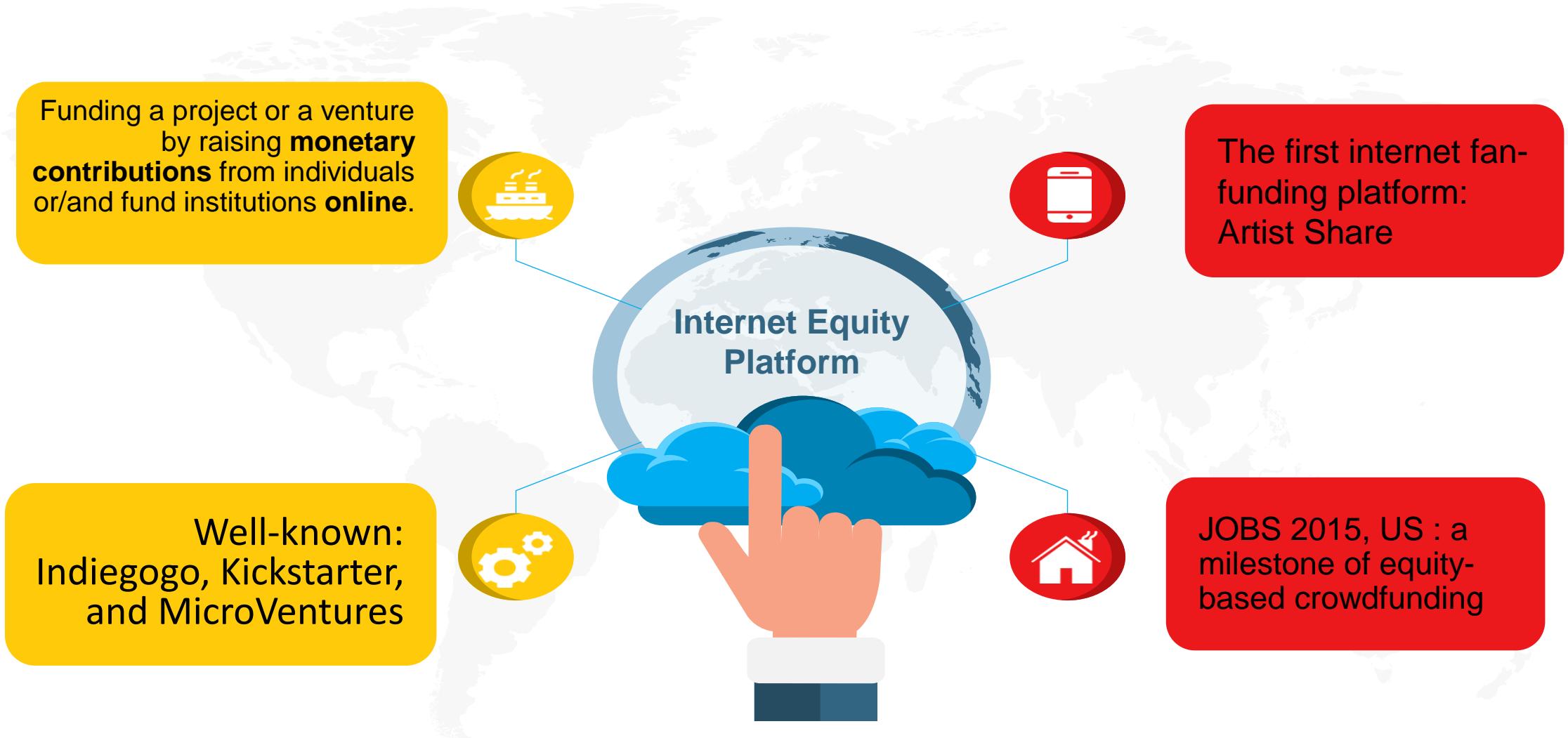
## Rise

- New payment innovation (e.g. AliPay, WeChat Pay) has helped change the mindset and paved the way for the growth of the P2P sector
- P2Ps fill a gap in financial market to meet the need of individual borrowers and SMEs
- Absence of lending regulation sparked growth (nearly unregulated before 2016)
- Extremely higher expected return (8-12%pa on average) to attract lenders

## Fall

- a combination of regulatory failures, fraud and the declining debt is being blamed

# Equity-Based Crowdfunding

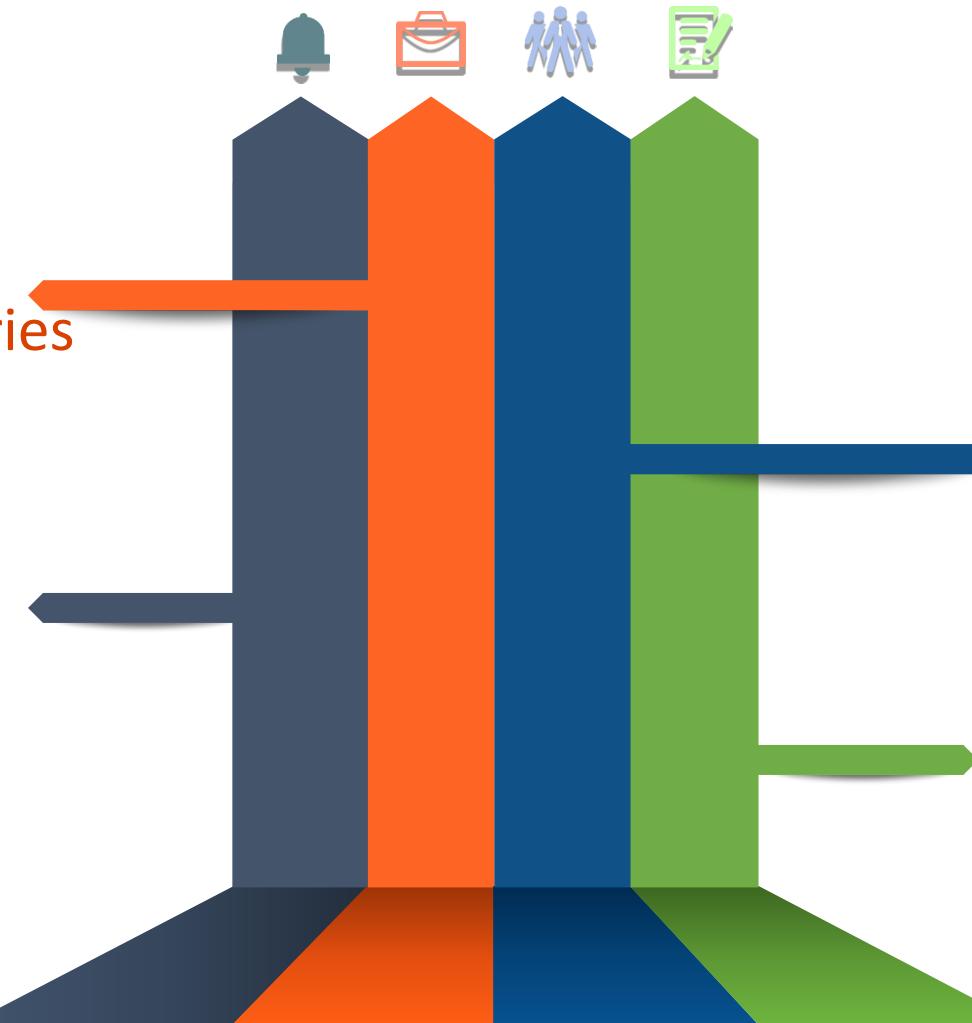


## Traditional Offering

## Private Equity/IPO

2. Through costly established intermediaries

1.Tightly regulated process



## Why Not Banks

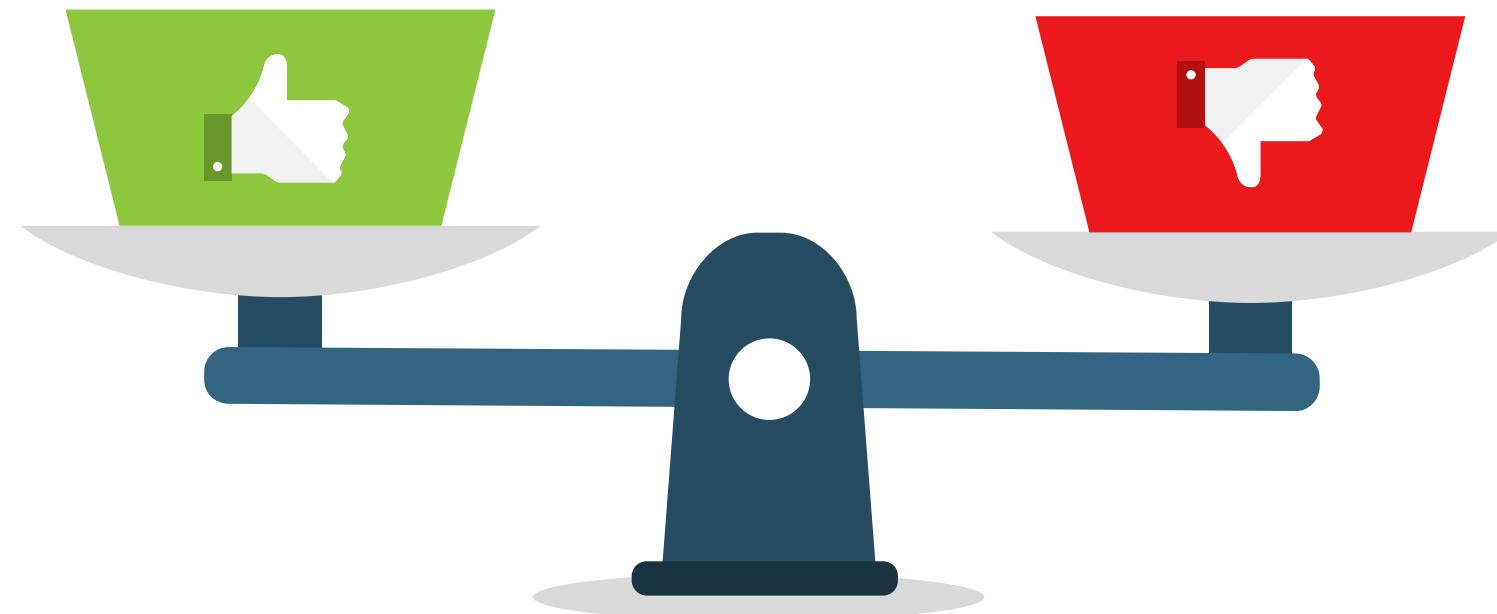
# Is equity-crowdfunding better?

## PROS

- Lower overheads
- Possible better rewards
- Lower Investment Minimums

## CONS

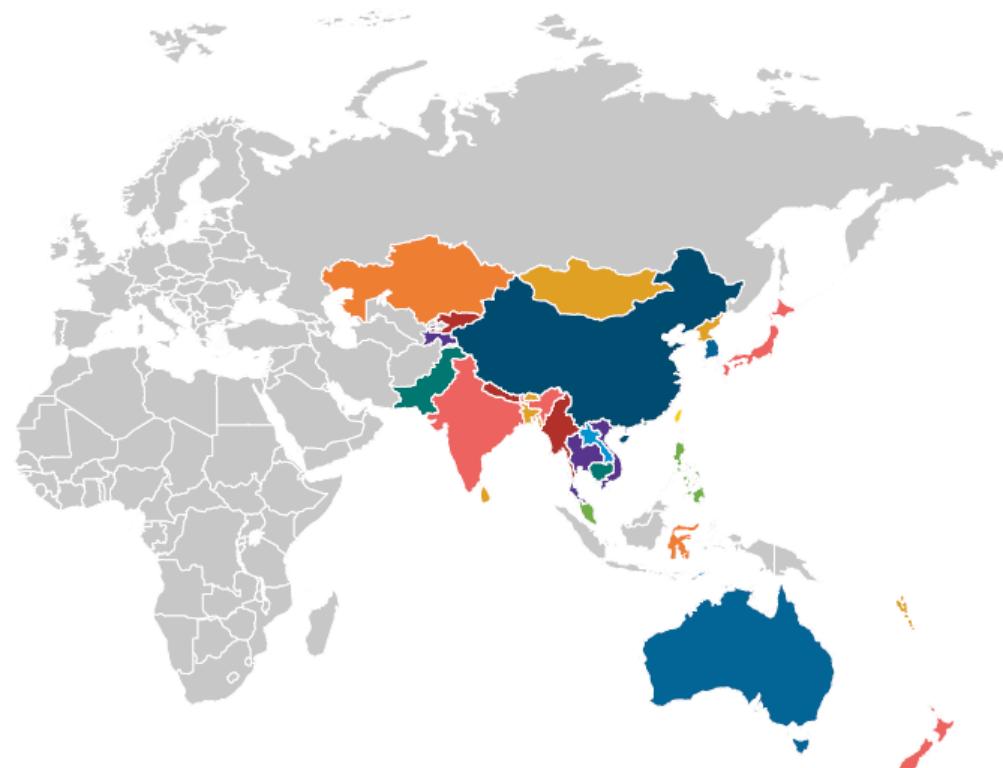
- Less liquidity
- Higher Risk
- Longer return horizon



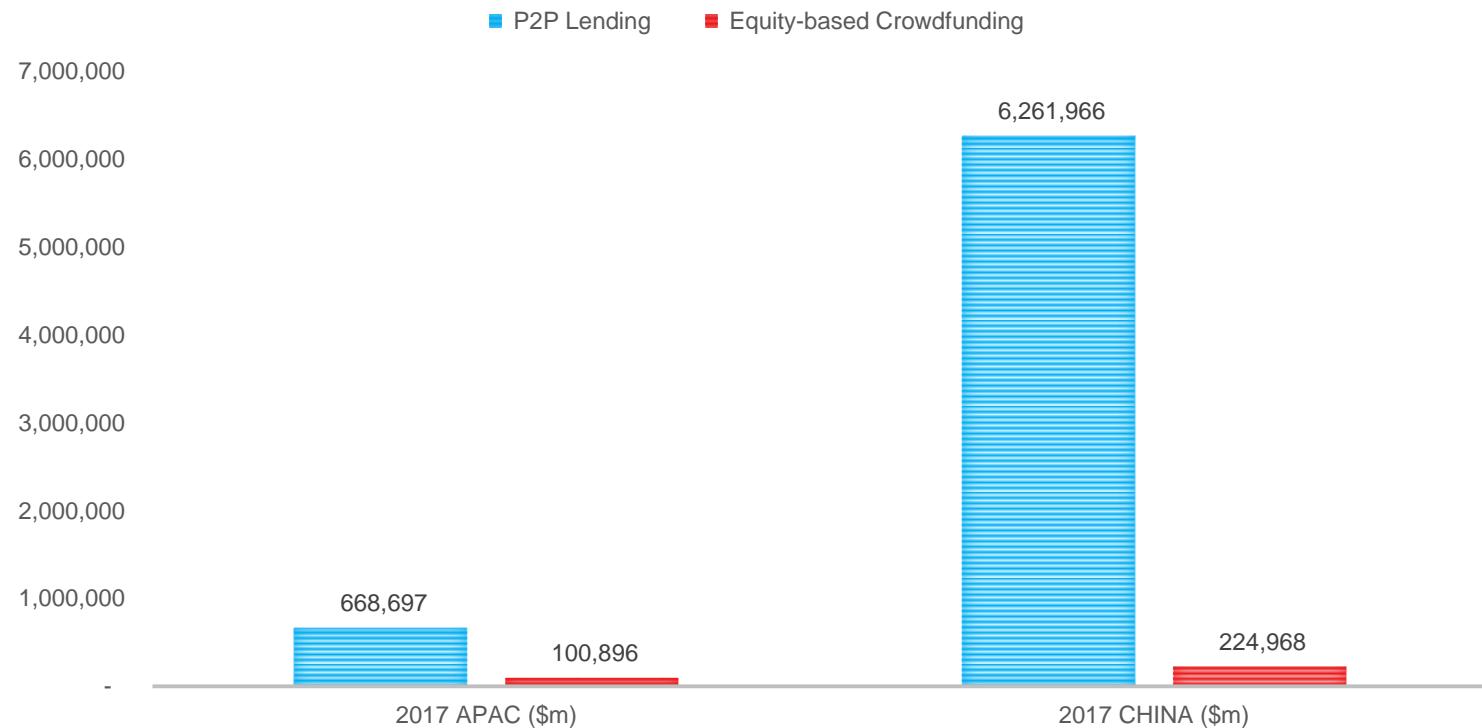
## US after JOBS

- Of the 6 million businesses, only 1,400 entrepreneurs have tried equity-crowdfunding
- Estimated raising cost via equity-crowdfunding in US is at least 10%
- For investors, hard to check out the expected rate of return

# Alternative finance in APAC 2017



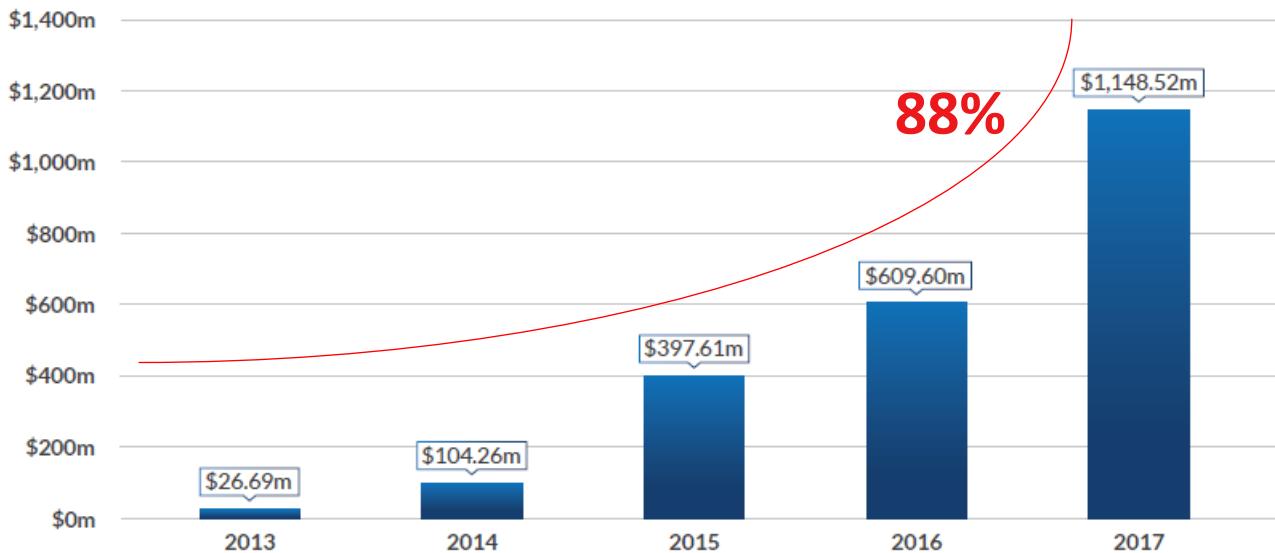
## ALTERNATIVE FINANCE IN APAC 2017



Source: table is prepared based on page 31, The 3<sup>rd</sup> Asia Pacific Region Alternative Finance industry Report, 2018

# Alternative Finance in Australia

Australia Total Alternative Finance Market 2013-2017 (\$millions)



- The largest country in terms of total alternative finance market volume in Asia Pacific region excluding China.
- Platforms adapt operational models and underwriting systems from both overseas operators and local banks
- The highest institutional participation rate : 65%
- Respective regulatory environment

# Crowdfunding: A threat?

